

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
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March 5, 2007

Mr. Richard C. Cooke
Cooke Management Company, Inc.
Post Office Box 808
Lake View, South Carolina 29563

Re: AC# 3-ANH-J3 – Aiken Nursing Facility d/b/a Azalea Woods

Dear Mr. Cooke:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2002 through September 30, 2003. That report was used to set the rate covering the contract period beginning October 1, 2004.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Facility Health and Nursing Home Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Yours very truly,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**AIKEN NURSING FACILITY
D/B/A AZALEA WOODS**

AIKEN, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2004
AC# 3-ANH-J3**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 28, 2006

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Aiken Nursing Facility d/b/a Azalea Woods, for the contract period beginning October 1, 2004, and for the twelve month cost report period ended September 30, 2003, as set forth in the accompanying schedules. The management of Aiken Nursing Facility d/b/a Azalea Woods is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Aiken Nursing Facility d/b/a Azalea Woods, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Summary of Costs and Total Patient Days, Adjustment Report, Cost of Capital Reimbursement Analysis, and the Comments and Recommendations sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Aiken Nursing Facility d/b/a Azalea Woods dated as of October 1, 2001, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
September 28, 2006

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

AZALEA WOODS
Computation of Rate Change
For the Contract Period
Beginning October 1, 2004
AC# 3-ANH-J3

	10/01/04- <u>09/30/05</u>
Interim Reimbursement Rate (1)	\$138.23
Adjusted Reimbursement Rate	<u>130.84</u>
Decrease in Reimbursement Rate	\$ <u>7.39</u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated March 1, 2006.

AZALEA WOODS

Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2004 Through September 30, 2005
AC# 3-ANH-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 65.07	\$ 70.36	
Dietary		13.98	12.42	
Laundry/Housekeeping/Maintenance		<u>11.79</u>	<u>11.28</u>	
Subtotal	<u>\$3.22</u>	90.84	94.06	\$ 90.84
Administration & Medical Records	<u>\$4.02</u>	<u>10.63</u>	<u>14.65</u>	<u>10.63</u>
Subtotal		101.47	<u>\$108.71</u>	101.47
<u>Costs Not Subject to Standards:</u>				
Utilities		3.12		3.12
Special Services		-		-
Medical Supplies & Oxygen		6.40		6.40
Taxes and Insurance		5.70		5.70
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$116.69</u>		116.69
Inflation Factor (4.70%)				5.48
Cost of Capital				7.86
Cost of Capital Limitation				(.94)
Profit Incentive (Maximum 3.5% of Allowable Cost)				4.02
Cost Incentive				3.22
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(5.49)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$130.84</u>

AZALEA WOODS
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-ANH-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,029,951	\$5,642 (7)	\$63,840 (9) 3,644 (9) 1,097 (10)	\$1,967,012
Dietary	448,859	1,192 (7)	6,808 (2) 6,730 (8) 7,632 (9) 1,304 (10) 5,040 (11)	422,537
Laundry	45,139	5,231 (7)	1,372 (9)	48,998
Housekeeping	170,131	369 (7)	5,055 (9) 112 (10)	165,333
Maintenance	159,624	-	5,891 (5) 6,386 (8) 2,693 (9) 2,623 (10)	142,031
Administration & Medical Records	368,151	170 (7)	1,698 (3) 3,300 (4) 3,832 (8) 4,003 (9) 772 (9) 33,362 (10)	321,354
Utilities	99,426	-	1,224 (5) 208 (10) 3,748 (11)	94,246
Special Services	-	8,820 (12)	8,820 (9)	-

AZALEA WOODS
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-ANH-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Medical Supplies & Oxygen	254,557	-	818 (2) 44,577 (7) 11,218 (8) 4,419 (12)	193,525
Taxes and Insurance	174,902	-	1,841 (6) 610 (10)	172,451
Legal Fees	-	-	-	-
Cost of Capital	209,192	3,491 (1) <u>25,686 (13)</u>	625 (10)	237,744
Subtotal	3,959,932	50,601	245,302	3,765,231
Ancillary	-	-	-	-
Nonallowable	596,909	7,626 (2) 1,698 (3) 3,300 (4) 7,115 (5) 1,841 (6) 21,012 (7) 28,166 (8) 97,831 (9) 39,941 (10) <u>8,788 (11)</u>	3,491 (1) 4,401 (12) 25,686 (13)	780,649
Total Operating Expenses	<u>\$4,556,841</u>	<u>\$267,919</u>	<u>\$278,880</u>	<u>\$4,545,880</u>
Total Patient Days	<u>30,230</u>	<u>-</u>	<u>-</u>	<u>30,230</u>

Total Beds 86

AZALEA WOODS
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-ANH-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$24,575	
	Other Equity	7,127	
	Cost of Capital	3,491	
	Accumulated Depreciation		\$31,702
	Nonallowable		3,491
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	7,626	
	Dietary		6,808
	Medical Supplies		818
	To reclassify expense to the proper cost center and disallow expense due to lack of adequate documentation HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
3	Nonallowable	1,698	
	Administration		1,698
	To reclassify expense to the proper cost center and remove cost not related to patient care HIM-15-1, Sections 2102.3 and 2304 DH&HS Expense Crosswalk		
4	Nonallowable	3,300	
	Medical Records		3,300
	To reclassify expense to the proper cost center and remove duplicate posting of expense HIM-15-1, Section 2304 DH&HS Expense Crosswalk		

AZALEA WOODS
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-ANH-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	7,115	
	Maintenance		5,891
	Utilities		1,224
	To adjust utility expense		
	HIM-15-1, Sections 2106, 2302.1 and 2304		
6	Other Equity	1,226	
	Nonallowable	1,841	
	Prepaid Insurance		1,226
	Taxes and Insurance		1,841
	To remove cost not related		
	to patient care		
	HIM-15-1, Sections 2102.3 and 2304		
7	Retained Earnings	10,961	
	Nursing	5,642	
	Dietary	1,192	
	Laundry	5,231	
	Housekeeping	369	
	Administration	170	
	Nonallowable	21,012	
	Medical Supplies		44,577
	To properly charge expense applicable		
	to the prior period, reclassify expense		
	to the proper cost center and disallow		
	expense due to lack of documentation		
	HIM-15-1, Sections 2302.1 and 2304		
	State Plan, Attachment 4.19D		
	DH&HS Expense Crosswalk		
8	Nonallowable	28,166	
	Dietary		6,730
	Maintenance		6,386
	Administration		3,832
	Medical Supplies		11,218
	To remove duplicate postings of expense		
	HIM-15-1, Section 2304		

AZALEA WOODS
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-ANH-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Nonallowable	97,831	
	Nursing		63,840
	Restorative		3,644
	Dietary		7,632
	Laundry		1,372
	Housekeeping		5,055
	Maintenance		2,693
	Administration		4,003
	Medical Records		772
	Special Services		8,820
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
10	Nonallowable	39,941	
	Nursing		1,097
	Dietary		1,304
	Housekeeping		112
	Maintenance		2,623
	Administration		33,362
	Utilities		208
	Taxes and Insurance		610
	Cost of Capital		625
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
11	Nonallowable	8,788	
	Dietary		5,040
	Utilities		3,748
	To remove expense not related to patient care HIM-15-1, Sections 2102.3 and 2328		

AZALEA WOODS
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-ANH-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Special Services	8,820	
	Medical Supplies		4,419
	Nonallowable		4,401
	To adjust special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
13	Cost of Capital	25,686	
	Nonallowable		25,686
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$311,808</u>	<u>\$311,808</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

AZALEA WOODS
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-ANH-J3

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.63785</u>
Deemed Asset Value (Per Bed)	41,198
Number of Beds	<u>86</u>
Deemed Asset Value	3,543,028
Improvements Since 1981	1,123,958
Accumulated Depreciation at 9/30/03	(<u>1,771,197</u>)
Deemed Depreciated Value	2,895,789
Market Rate of Return	<u>.0531</u>
Total Annual Return	153,766
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	153,766
Depreciation Expense	83,978
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	237,744
Total Patient Days (Actual)	<u>30,230</u>
Cost of Capital Per Diem	\$ <u><u>7.86</u></u>

AZALEA WOODS

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-ANH-J3

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$2.93
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$6.92</u>
Reimbursable Cost of Capital Per Diem	\$6.92
Cost of Capital Per Diem	<u>7.86</u>
Cost of Capital Per Diem Limitation	<u>\$(.94)</u>

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified certain conditions that we have determined to be subject to correction or improvement. We believe these conditions should be brought to your attention.

TRANSACTION CLASSIFICATION

The Provider classified a significant number of transactions to improper accounts and cost centers.

Guidance for the proper classification of transactions is provided in the South Carolina Department of Health and Human Services Medicaid Nursing Home Accounting and Reporting Manual (Expense Crosswalk), the State Plan under Title XIX of the Social Security Act, Medicaid Bulletins and South Carolina Department of Health and Human Services directives.

By failing to classify transactions in accordance with the administering agency's guidelines, the Provider misstated several accounts and cost centers.

We recommend the Provider establish and implement necessary controls to ensure that all transactions are properly classified in accordance with South Carolina Department of Health and Human Services guidelines.

MEAL AND VENDING MACHINE SALES

Income from meal and vending machine sales was not deposited in the facility operating account. Funds generated from these sales were retained by the owners and used to make minor purchases for the facility, similar to a petty cash fund.

A system of good internal accounting control requires that all cash received be deposited intact.

By failing to deposit these receipts, the Provider is unable to readily document income derived from meal sales and vending machines, and has understated income and overstated reimbursable expenses.

We recommend the Provider establish and implement the necessary controls to ensure that all cash received is deposited timely and intact.

2 copies of this document were published at an estimated printing cost of \$1.49 each, and a total printing cost of \$2.98. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.